

West Virginia ***Tax Modernization Project***

RECOMMENDATIONS BY... Participants of the Tax Summit Meetings Held July 6, 2006



Transcript of Recommendations for Tax Modernization before Karon L. Vorholt, a Certified Court Reporter and Notary Public in and for the State of West Virginia, on the 6th day of July 2006, commencing at 3:25 p.m., held at the Charleston Civil Center, 200 Civic Center Drive, Charleston, West Virginia.

APPEARANCES:

JOHN C. MUSGRAVE, Cabinet Secretary
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MR. MUSGRAVE: What we're going to do is take about five minutes. We have the 14 moderators up here.

I'm going to ask that each of them come to the podium, introduce themselves. Indicate what tax they -- the tax and fees, administrative issues they considered, whether it was business or personal, property, or road fund, or local. And try to take about five minutes each or four minutes each and tell us what they found out. Give us a report. Please introduce yourself as you go to the podium too. Thanks.

MS. BOGGESS: Good afternoon everyone. My name is Samantha Boggess. And I'm with the Offices of the insurance Commissioner. I served as a moderator for business tax in Room 208.

I would also like to thank each member of my work group and my team. Your participation and contribution was sincerely appreciated. I would also like to say please be assured that all information that was gathered today will be considered by the Tax Modernization Work Group.

With that being said, I would like to give you our four issues. Number one was government spending. So we have to tie that into taxes somehow. Improve the Tax Department.

Third is high corporate net income rate. And number four was to close the loopholes on tax shelters.

The following solutions were identified. For government spending we recommend the review and implementation of the Governor's Study to review how to save money. In part to address too many State employees. Also to insure that those employees are in appropriate jobs.

Another solution was to consolidate city and county governments.

We also recommend review higher education to eliminate duplication of services in the pollinization of funding process. Basically we recommend that we do not spend more than we take in.

The second issue was to improve the Tax Department. Our solution is to hire and train qualified audit staff to do out-of-state audits.

We want more aggressive enforcement. And we want to identify the areas in which revenue is lost. And then address those areas.

We also ask that we implement the mediation at the Tax Department level.

Our third issue was high corporate net income rate. We asked that it be lowered through legislation.

We believe that if there's more aggressive enforcement, then we can collect the funding from those who legitimately owe.

We also ask for better enforcement on multi-state businesses.

Our last issue that we identified in the top four was to close the loopholes on tax shelters.

One solution is to implement the anti-PIC. Next was aggressive nexus. We recommend a separate Tax Department to focus on foreign businesses.

This concludes our group's report and recommendations. Thank you very much.

MS. BENSON: Hi. I'm Lova Benson. And I work for West Virginia Conservation Agency. And I was moderator in Room No. 207 for business taxes also.

The top four issues that we had were tax structure simplicity, the review of business franchise and corporate net income taxes, long-term effects of tax changed impacts. And a better way to lower taxes is to lower government costs.

No. 1, tax structure simplicity. Suggested ways to overcome this is electronic filing, reporting and paying taxes. Consolidating

taxes. And effectively funded Tax Department to make the tax system easy to understand and provide a competitive structure with other states.

The second item was the review of business franchise and corporate net taxes, trying to lower corporate net taxes to be competitive with other states. And to try to phase out the business franchise tax over time.

The third issue was long-term effects of tax changed impacts. Tax changes should be incremental. Accurate estimates must reflect future behavior after tax reform changes.

Reform should be durable, lasting and stable.
Genuine concern over ability to lower taxes.

The fourth item is a better way to lower taxes is to lower government cost. And in order to do that, we would provide efficiency and administration in the examination of services provided and the adequacy of charges.

And to sum it all up, the group felt that -- mostly they felt apprehension to the changes. They were concerned about the long-term effects the changes would provide.

MS. CARTER: Good afternoon. My name is Lara Carder. I'm from the West Virginia Department of Administration, the Division of Personnel.

And I was moderator for Room 209. And we focused on business taxes.

And the following are the top four issues that we identified as problems or concerns that need to be addressed.¹

Our first issue was that we believe that the State lacks a clear policy that outlines the entire tax structure.

¹ During the morning breakout session in Room 209, the issue was brought up regarding the tax on soft drinks. Based on the interest shown by the participants in this room, the proposal to repeal the tax on soft drinks should have been included on the afternoon agenda.

Our second issue was that we felt that the current tax system stifles business and limits our competitiveness with other states and with businesses here within the state.

And our third issue that we identified was that we believe that there's a lack of fairness between providing incentives to establish West Virginia businesses and to the newer businesses that are locating here.

And fourthly, the last issue that we identified was that the burden of supporting the tax system within the state falls more heavily on businesses than on other areas of payers of taxes within the state.

So we came up with four solutions for how we could correct -- or what we thought would be great recommendations to correct some of these issues.

No. 1, draft a policy that would be clear. And that we could consolidate the tax code. It would include provisions of a good tax system that were outlined in some of the presentations made today. It would also include a dynamic tax model.

We believe it should be drafted by a committee. Most likely the Tax Modernization Committee. And that it should clearly outline the percentages of taxpayers, and according to which segments of society of those who will have to pay taxes should pay.

For example, that whether 50 percent of the taxes should be paid by businesses, 50 percent by personal, et cetera.

No. 2, our issue was the stifling of business. We believe that that could be remedied by repealing the franchise tax.

We believe that economic growth will occur, and can be stimulated by repealing that tax.

Our third issue was the incentives for new businesses in the fairness of applying those towards new businesses versus established businesses.

We feel that it would be best if we look at reducing or eliminating the corporate net income tax.

And this would bring us more in line with surrounding states. And would help us to be a little more competitive.

And fourth and lastly, in regard to those incentives, we believe that the tax incentives need to be evaluated. And it needs to be fair for all business in West Virginia. Not just those businesses that are coming in. But also for those businesses that are already located here and who have been providing for our communities over time.

And those are the recommendations that our group discussed. And thank you for your time.

MS. DADISMAN: Hello. I'm Marsha Dadisman. I work for the Department of Health & Human Resources.

Today I served as moderator for business tax. And we were in the Lounge.

We identified four areas where problems exist. The first one, out-of-state competition. The second one deals with franchise tax. The third one, inventory tax. And the fourth one, baseline jobs.

The first problem related to out-of-state competition. The problem statement is, out-of-state businesses conducting business in West Virginia may have an unfair competitive advantage.

The solution is to create a uniform sales tax. Another solution that the group discussed was that on purchases from outside the state into West Virginia by a business, we should tax the retailer, not the wholesaler.

The second problem deals with franchise tax. Franchise tax is regressive. And when combined with corporate income tax is a double penalty against businesses.

The solution, abolish the franchise tax. And decrease corporate income tax over time to mirror the personal income tax rate.

The third area, inventory tax. The problem is that inventory and all other personal property is not taxed properly.

Tax on inventory hinders businesses – or business expansion. I'm sorry. Currently inventory is taxed twice - property and sales tax.

The solution is to repeal the inventory tax. Repeal it on all tangible personal property and increase or shift it to real property.

And the fourth problem, baseline jobs. The problem is there's a lack of growth in baseline jobs that create -- well those jobs that create wealth.

The solution is to provide infrastructure development, such as roads, water, sewer, instead of tax credit.

Include incentives for existing businesses. And target incentives to specific demographic areas -- that's an intended pun -- such as on aging

And I also want to thank the members of the group that I facilitated. They are very knowledgeable and very passionate about the topics that they discussed today.

MS. McNEMAR: Good afternoon. My name is Kelly Jo McNemar with the Department of Administration.

And this afternoon -- or today I served as moderator with a great team from the Tax Department regarding local taxation fees and administration. Our session was held in Parlor Room A.

While we discussed a lot of things today with our participants, we were able to identify four issues.

The first, alternatives to property tax to fund education. Trying to keep local property taxes at home.

The second, inequity and inconsistency between city, county and school regarding bond issues and taxes.

The third, less state control regarding local authority. We want a more flexible local government. And the fourth was stronger authority for collections.

In regard to alternatives to property tax to fund education, and trying to keep those property taxes at home, the group discussed accountability for the budget digest.

Tax, and the opportunity to tax professionals, advertisers and bottled water. And to reexamine all exemptions.

In regard to inequity and inconsistency between city, county and school regarding bond issues and taxes, the group discussed having the same rules apply to all entities. Having the same ability to tax.

For example the hotel/motel tax being consistent, and then allowing for flexible usage. And also having a simple majority for passing levies.

In regards to less state control regarding local authority, allowing a more flexible local government, the group discussed eliminating rollback provisions and caps, restructuring the B & O classification and rate.

That would allow for a piggyback on State taxes, like general sales. And also could potentially allow a local economic growth tax.

We also discussed changing the time line for setting the tax and levy rates.

In regard to less -- or in regard to stronger authority for State collections, our fourth issue, the group discussed implementing statutory authority and penalties and tax liens.

And they also discussed a local enforcement authority to collect.

The group did a great job today. Thank you for your information and for your time and input.

MS. PAUER: Hello. My name is Jennifer Pauer. And I'm with the Department of Environmental Protection. And I spent the day moderating the property tax group in Room 206.

The four issues that we identified were that there is a competitive disadvantage of the property tax on manufacturing in West Virginia versus other states.

Property tax dispute resolution is an issue. And there's no consistent valuation on minerals across the state.

And our fourth issue was inconsistency across the state of what qualifies as a farm.

So when we talked -- brought those issues back this afternoon and discussed solutions, what we came up with is for the first one, competitive disadvantage of the property tax on manufacturers versus other states.

The first solution that we had was to adopt legislation to exempt manufacturers' inventory from property taxation.

And we were told that there is Senate Bill 59 out there. That's an opportunity for that to happen.

The second solution was to show the public benefit of being competitive to manufacturers within the state.

The third solution was to eliminate the equipment tax. And if we could not eliminate equipment tax, we could give credit for the property tax for some other state tax. And include a carry forward credit for future tax, or a refundable credit.

Our fourth solution on our first issue was to eliminate personal property tax and recoup the income by changing the levy rate on real property.

And in conjunction with that, we could shrink local government by eliminating the cost of collection -- the people who have to collect those personal property taxes.

Our second issue was property tax dispute resolution. And we had two solutions to that one.

The first one was to increase the time period to conduct property tax hearings. It only happens during the month of February. And we thought an increase in that time would help.

The last solution to that one was to create a Board of Property Tax Appeals which will be qualified, fair and independent.

Our third issue was that there is no consistent valuation of minerals across the state. And we had two solutions to that one also.

The first solution was to evaluate the regulation and simplify the formula.

The second solution was make valuations more available to the public, and to simplify them.

The fourth issue was inconsistency across the state with what qualifies to be a farm. And our solution to that one was to change the law to provide a clearer definition of a farm.

And within that definition we should consider sale of farm products to exceed a specific value. And also to define the Farmland Protection Act.

Those were the issues that we worked on today, and the solutions that we came up with. We did have a very good group. And I thank everyone for their time.

MS. BOROWSKI: Good afternoon. My name is Jan Borowski. I work for the Solid Waste Management Board. I was moderator today for property tax. We were in Room 205.

We were to identify four issues, which we did. And we came up with solutions. But we did not come to consensus. Someone wanted me to mention that.

Our first issue was to protect and preserve our culture through taxation. Specifically they mentioned agriculture, tourism and forestry.

The second issue was that we need a two-rate tax system. That's land and improvements.

Our third issue was to preserve property tax as it is. And four was the school funding as it relates to property tax.

So going back to our first issue, to protect and preserve our culture through taxation.

One of the solutions was to relate the tax to use. Another solution was to implement a rollback provision when land has changes.

And the third solution was to maintain the evaluation system used today.

Regarding the two-rate tax system, it was suggested to change the law to permit a two-rate system, to increase the tax on land and to lower the tax on buildings.

Our third issue, preserve tax as it is. The comment there was if you eliminate property tax, the staple replacement would be to develop and maintain the funding.

And the last one, the school funding as it relates to property tax. The solution was to decouple school funding from property tax, to change the school aid formula.

The solution was that we need alternative funding source, possibly have a land value tax only to support education. Thank you.

MS. WHITE: Hello. My name is Libby White. And I work for the West Virginia Lottery.

And today I was moderator of a group for the road fund tax, fees and administration in Room 103.

I had a wonderful group. I'd like to thank you all who participated.

Actually we came up with at least 15 issues of concern. And fortunately were able to consolidate that to one primary issue.

Regarding the road tax -- road fund tax, fees and administration, the primary issue is that funding sources as far as State highway system, current maintenance and future development, the resources are limited, restricted, and they are diminishing.

Our solution -- or possible solutions to look at for this issue are perhaps researching and exploring the use of toll as a possible revenue source on our highways.

We could explore the impact of using a vehicle mileage fee as a way to fund highway maintenance.

We could entertain concepts of private/public ventures for maintenance. And even for possible construction of new systems.

We also thought about diverting the consumer sales tax from tires, cars, other instruments used by vehicles to the Highway Fund. That was a good concept.

And we thought about exploring the fiscal impact of using general revenue funds to supplement the Highway Fund.

Finally, we thought we had to look to the future. Today the Highway Fund is based on a petroleum- based tax fee.

In the future there will be alternative energy. We're already seeing hybrids now. We'll have many different things on our highway system.

How are we going to tax or assess fees upon elements such as ethanol, hydrogen or solar power.

I'd like to thank you all, and thank the members of the group.

MS. OAKES: Good afternoon. My name is Tonja Oakes. And I'm from the Tax Department. And like Libby, I also moderated in the road fund tax in Room 104.

And we identified four issues. The first being vehicle privilege tax for businesses or individuals when they move to West Virginia from

another state – and perhaps they've already paid that privilege tax in another state.

Alternative fuel production. Revenue from areas that could be dedicated to highways. And uniformity of all taxes.

The first solution was for be a privilege taxes -- of course to simply remove the tax. And to give credit for West Virginia residents when they have paid that to another state.

The solution for the second issue was future development, the resources are limited, restricted, and they are diminishing.

Our solution – or possible solutions to look at for this issue are perhaps researching and exploring the use of toll as a possible revenue source on our highways.

We could explore the impact of using a vehicle mileage fee as a way to fund highway maintenance.

We could entertain concepts of private/public ventures for maintenance. And even for possible construction of new systems.

We also thought about diverting the consumer sales tax from tires, cars, other instruments used by vehicles to the Highway Fund. That was a good concept.

And we thought about exploring the fiscal impact of using general revenue funds to supplement the Highway Fund.

Finally, we thought we had to look to the future Today the Highway Fund is based on a petroleum-based tax fee.

In the future there will be alternative the alternative fuel production, was that in order to initiate that alternative fuel production they would need State government support for them to initiate that production.

The revenue from the highways -- I mean revenue that could be generated for highways, was revenue for motor vehicles, related maintenance and disposals, fee on vehicle violations, like tickets that you receive. Part of those fees goes to the jail.

They recommended that maybe the fees be incorporated to a new fee so that it could be generated for highways. Allow the local governments to impose an excise tax on vehicles for repairs to local roads.

And the uniformity of all taxes, the recommendation was review of competitive taxes in the bordering states. And perhaps a review of converting the motor vehicle tax to variable rates. Thank you for a good time.

MS. KOON: Good afternoon. My name is Teresa Koon. And I'm with the West Virginia Department of Environmental Protection.

I moderated the personal income tax fees and administration session in Room 203.

Our four issues, we combined three that were very similar.

So the first issue was the threshold for low-wage workers, which incorporates them – some discussion on standard exemption. As well as the low income earned exclusion that the Governor mentioned in his presentation.

The second issue is the inheritance tax. The third issue, excise taxes. And the fourth issue is indexing the rate brackets for income tax for inflation.

The first issue, the threshold for taxing low-wage workers, we discussed solutions such as credits for different income brackets. Which the state of Kentucky does. credit, similar to what the federal government does. And there are 18 states that do that, that we could look to for advice.

We discussed also a straight 25,000 or a 12,500 exemption, standard exemption for everyone. Which includes a flat tax for higher incomes, that would be tacked onto that.

And we discussed some ways to maybe address any revenue differences that may result from some of those.

And we talked about looking at other taxes aside from personal income to make up for revenue shortfalls, such as property tax and

giving more control to local governments to levy property taxes and use those funds.

And to reduce government -- to reduce government in general. But to also look at reducing government where the majority of the expenditures are going. And maybe some -- a call for some additional oversight on government expenditures.

The second issue was the inheritance tax. This -- there was definitely no consensus on this in our group. And each solution kind of counteracts the other.

So we had a solution of reinstating the inheritance tax on estates over five million.

We had a solution of eliminating the inheritance tax altogether.

A suggestion that we might decouple it with the federal estate tax and have our own West Virginia inheritance tax or a state tax.

And it was also mentioned that this is an easy tax to collect if the federal government is collecting it.

But in West Virginia it may not amount to a significant revenue source. So it would be wise to do that only if it was tacked on to the federal estate tax, to make it easier to administer.

The third issue was the discussion on excise taxes. There was a general feeling to increase and index cigarette taxes and smokeless tobacco. And one suggestion was to provide the revenue from that to Medicaid.

The suggestion to consider that if we do look at excise taxes we need to consider the effect on the retail competition with border states who are able to charge less for products, and folks going across the border to purchase those products.

So we need to be careful to consider that as we look at excise taxes.

The discussion -- the group also discussed targeting excise taxes based on the negative impact.

Again tobacco would be an example that there's medical data to support that there are a number of costs -- health-related cost from the use of tobacco. And we may want to look at targeting our excise taxes based on some of those negative impacts.

And finally, there was some discussion about the excise tax on alcohol, and the fact that the Governor concurrently increased that now. And that may be something that The Summit should consider.

And the final issue were indexing the rate brackets for income tax for inflation. And that was kind of a problem and a solution together. So there are no sort of follow-up issues with that.

So this concludes our group's recommendations. And it was a pleasure to work with all of you. And thank you.

MS. LION: Hello. I'm Linda Lion. I'm with the Public Service Commission. And I was personal tax, as well. And we were in Room 204.

We had four issues come up. The first one was tax form revision. The second was to decrease the tax burden on low-income persons.

The third was to decrease personal property tax for our senior population. And the last one was to keep West Virginia from modeling after unsuccessful states.

So the first one on the tax form revision was to make a standardized exemption a personal income tax. The same as the federal.

The next one was low income exclusion. That that tax be tiered based on your family size.

And the third was to have a transition tax between a buyer and a seller above transaction amounts of \$250 or .03 percent rate.

And West Virginia, if we did this, we would be the first state to enact it.

The second was to decrease the tax burden for low income. And some of the solutions were the transition tax would generate more revenue.

And the tier low-income exclusion tax, which I just talked about. And to exempt Social Security income from personal income on our taxes.

Eliminate the grocery tax and eliminate the privilege tax on automobiles.

Our third problem was to decrease personal property tax for our seniors.

And some of the solutions were to tier it by the ability to pay based on their income. And to attract people who have the ability to pay personal property taxes to West Virginia by advertising.

Maybe a one-year tax incentive for those people moving into the state. And then the transition tax came up as well.

The last one we had was for West Virginia to model after successful states. And the main thing was where do we want to go in West Virginia. So we want to look at successful models of tax reformation.

We'd like to maybe advertise to affluent baby boomers and children of baby boomers to come to West Virginia to live here.

And maybe another solution was intergenerational centers. And the third one was to target successful industry initiatives.

And the last one was to look at how our government spends our money, and make sure that we're getting the best banking for our buck.

I want to thank my team. They did a great job. Thank you very much.

MS. HOLSTEIN: Good afternoon. I'm Robin Holstein. I'm with the State Conservation Agency.

I moderated one of the personal taxes, fees and administration breakouts in Room 202.

We managed to compile a large number of things. I think we had 24 altogether. And we were able to whittle those down to our top four.

And the top four items that we identified, one was excise taxes on soft drinks. Sin taxes, and ATFs are too low.

Two, the collection of and administration of ad valorem and personal property taxes are not standardized. In 55 counties you may have 55 different ways to administer those.

Three, personal income tax exemption is too narrowly defined. And four, sales and provider taxes are inconsistent.

In our afternoon session as we identified some solutions to these issues, we noted one, to increase the excise taxes. If you put five cents on a half liter of soft drinks, double the sin taxes, and put \$100 for ATF.

Two, standardize and centralize the collection administration of ad valorem and personal property taxes into a State office.

Three, redefine personal income tax exemption to include everyone. And raise that exemption to \$20,000.

Four, eliminate exemptions on personal transactions such as on sales taxes. They are inconsistent, and too poorly defined.

I want to thank everyone who worked with me. And I had a wonderful group as I said.

I want to thank you for inviting me to do this. It's been a wonderful educational day me. Thank you.

MS. FITZWATER: Good afternoon. I'm Ginny Fitzwater. And I'm with the Department of Health & Human Resources.

I served as moderator also in personal tax work group. And we were located in Room 201.

The following top four issues were identified by our group.

The first issue was the working poor and how they are taxed. Our second issue was personal property tax on vehicles.

Our third issue was taxes on pensions and annuities. And our fourth issue was percent of taxes paid should be equal for high and low income.

In the afternoon our work group identified the following solutions to address the issues.

In regard to issue one, the group defined working poor as low income earners. And suggested raising personal exemptions to the federal poverty level, and making personal income tax more progressive to offset and increase in the income tax threshold.

In regard to Issue 2, personal property tax on vehicles, the group suggested repealing the privilege tax imposing sales tax on vehicles and giving credit on vehicles purchased out of state when relocating back to West Virginia.

In regard to Issue 3, taxes on pensions and annuities, the group suggested increasing low income exemption to \$20,000.

In regard to Issue 4, percentage of taxes paid overall should be more equitable for high and low income, the group has suggested a more progressive income tax structure be established.

This concludes our group's report and recommendations. And also concludes the moderators' reports.

On behalf of all the moderators, I would like to thank you for your time and your attention today.